

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 382 - HB 382**

March 18, 2019

**SUMMARY OF BILL:** Deletes the sales and use tax exemption for purchases of industrial machinery. Deletes credit against franchise and excise (F&E) tax liability for industrial machinery purchases.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue – \$499,808,600**

**Increase Local Revenue – \$90,191,400**

**Other Fiscal Impacts – Secondary economic impacts may occur as a result of this legislation due to a decrease in the amount of investments companies may make in Tennessee. Due to multiple unknown factors, precise fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.**

Assumptions:

- According to the Department of Revenue (DOR), approximately 6,000 taxpayers have industrial machinery exemptions.
- These taxpayers are not required to report to the DOR the amount of exempt industrial machinery purchases for the purpose of the sales tax exemption; however, franchise and excise (F&E) taxpayers are required to report industrial machinery purchases in order to qualify for the F&E industrial machinery tax credit.
- Based on an analysis of F&E tax returns for the past three tax years, approximately 1,500 taxpayers made industrial machinery purchases annually and the average amount of industrial machinery purchased per tax year was approximately \$6,000,000,000.
- Removing the sales tax exemption from industrial machinery purchases will result in a recurring increase in state and local sales tax revenue.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent (imposed on the first \$1,600 of a single article); the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The recurring increase in state sales tax revenue is estimated to be \$404,808,600  $[(\$6,000,000,000 \times 7.0\%) - (\$6,000,000,000 \times 7.0\% \times 3.617\%)]$ .

- It is assumed that 50 percent of industrial machinery purchases exceed the single article cap of \$1,600.
- The recurring increase in local sales tax revenue is estimated to be \$90,191,400  $[(\$6,000,000,000 \times 50\% \times 2.5\%) + (\$6,000,000,000 \times 7.0\% \times 3.617\%)]$ .
- In addition, deleting the credit against F&E tax liability for industrial machinery purchases will result in a recurring increase in state revenue. Based on information provided by the DOR, such increase is estimated to be approximately \$95,000,000.
- The total recurring increase in state revenue is estimated to be \$499,808,600  $(\$404,808,600 + \$95,000,000)$ .
- Secondary economic impacts may occur as a result of this legislation due to a decrease in the amount of investments that companies may make in Tennessee. *The Economic Impact of Business Tax Credits in Tennessee* study (December 26, 2016, Anderson Economic Group) estimated that approximately \$4,000,000 in annual spending would not have occurred in the absence of the F&E industrial machinery tax credit. However, due to multiple unknown factors, precise fiscal impacts directly attributable to such secondary economic impacts cannot be quantified with reasonable certainty.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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